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# *Economics Group*

**Sarah House, Senior Economist**
sarah.house@wellsfargo.com • (704) 410-3282
**Tim Quinlan, Senior Economist**
tim.quinlan@wellsfargo.com • (704) 410-3283

# Industrial Production Still Struggling

***IP fell 0.3% in January. The drop can be traced to a big decline in utilities and Boeing suspending production of its 737 MAX. Elsewhere, however, production growth was uninspiring and still faces near-term headwinds.***

## Could Have Been Worse, but Could Have Been Better

The industrial sector continues to struggle, with production falling for the third time in four months in January. Total production fell 0.3%. Some of the weakness can be tied to a 4.0% drop in utilities output after another unusually warm winter month, but there were few signs of manufacturing production beginning to rev-up despite some improvement in purchasing manager indices and the Phase I trade deal being reached between the United States and China.

We expected to see a much more dramatic hit to IP, due to Boeing stopping the production of the 737 MAX last month. The MAX made up nearly half of Boeing deliveries in the six months before shipments were halted nearly a year ago, leaving the model tied to a sizeable part of the country's aerospace industry. Despite the importance of the MAX, aircraft & parts declined "only" 10.7% in January. At a 2.5% weight in total IP, that shaved off 0.3 points from the headline number and suggests that manufacturing output, excluding Boeing's issues, eked out a small gain.

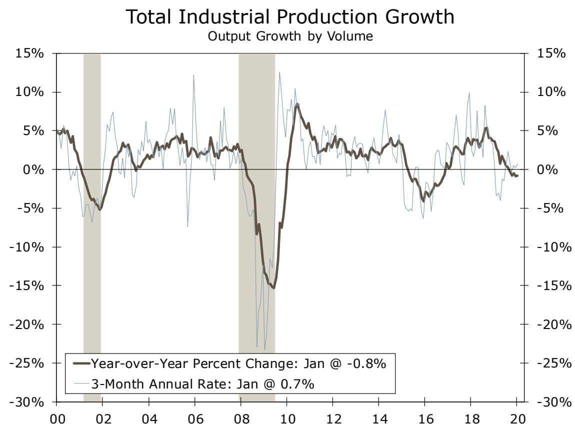
Offsetting the weakness in aircraft production last month was a 0.8% increase in computers & electronics. This sector remains one of the most vulnerable to supply chain disruptions out of China, so we would not be surprised to see some weakness in the coming months. Another source of strength in January was a 2.4% increase in motor vehicles & parts. Overall, motor vehicle and parts production remains lackluster, however, having increased just 0.8% over the past year. Machinery orders, down 1.1% in January, also pointed to a manufacturing sector that is still struggling.

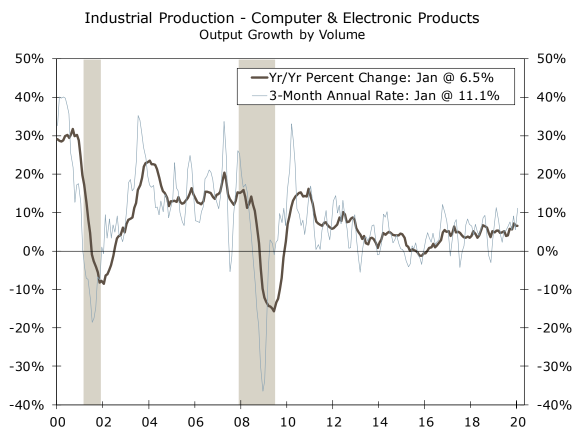
Mining output rose 1.2% last month, with broad increases across oil & gas, coal, metals and minerals. Support activities for new oil & gas wells remain little changed, however. With oil prices under pressure, we would not expect mining to be a consistent boost to overall production the next few months.

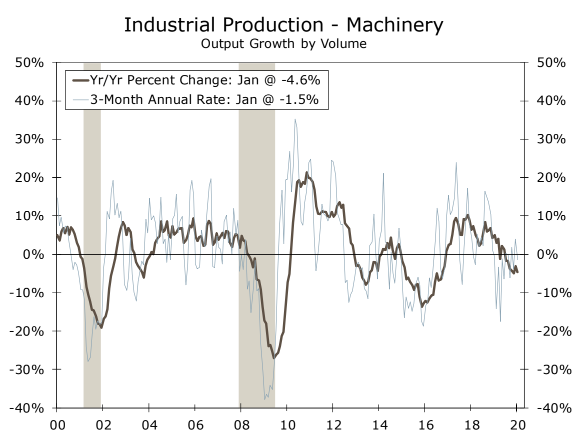
## Supply Disruptions Out of China a Looming Risk to Production

Today's report covers only the first few weeks of the emergence of the novel coronavirus out of China. As a result, the data do not reflect the potential impacts of extended factory shutdowns and transport bottlenecks on U.S. production. Effects may emerge as early as next month, but we think it would likely take a bit longer for disruptions to manifest in the data.

While U.S. supply chains are more integrated with China today than they were a few decades ago, inventories in the manufacturing sector are relatively high. That may blunt some of the impact to output if manufacturers' U.S. suppliers are relatively well-stocked or substitutes are available stateside. That said, it can often only take a single out of stock part to disrupt production. Therefore, we would expect production to remain fairly weak the next couple of months, although, along with Boeing's troubles, the outlook is more uncertain than usual.




Source: Federal Reserve Board and Wells Fargo Securities

## Wells Fargo Securities Economics Group


| | | | |
|---|---|---|---|
| Jay H. Bryson, Ph.D. | Acting Chief Economist | (704) 410-3274 | jay.bryson@wellsfargo.com |
| Mark Vitner | Senior Economist | (704) 410-3277 | mark.vitner@wellsfargo.com |
| Sam Bullard | Senior Economist | (704) 410-3280 | sam.bullard@wellsfargo.com |
| Nick Bennenbroek | Macro Strategist | (212) 214-5636 | nicholas.bennenbroek@wellsfargo.com |
| Tim Quinlan | Senior Economist | (704) 410-3283 | tim.quinlan@wellsfargo.com |
| Azhar Iqbal | Econometrician | (212) 214-2029 | azhar.iqbal@wellsfargo.com |
| Sarah House | Senior Economist | (704) 410-3282 | sarah.house@wellsfargo.com |
| Charlie Dougherty | Economist | (704) 410-6542 | charles.dougherty@wellsfargo.com |
| Erik Nelson | Macro Strategist | (212) 214-5652 | erik.f.nelson@wellsfargo.com |
| Michael Pugliese | Economist | (212) 214-5058 | michael.d.pugliese@wellsfargo.com |
| Brendan McKenna | Macro Strategist | (212) 214-5637 | brendan.mckenna@wellsfargo.com |
| Shannon Seery | Economic Analyst | (704) 410-1681 | shannon.seery@wellsfargo.com |
| Matthew Honnold | Economic Analyst | (704) 410-3059 | matthew.honnold@wellsfargo.com |
| Jen Licis | Economic Analyst | (704) 410-1309 | jennifer.licis@wellsfargo.com |
| Hop Mathews | Economic Analyst | (704) 383-5312 | hop.mathews@wellsfargo.com |
| Coren Burton | Administrative Assistant | (704) 410-6010 | coren.burton@wellsfargo.com |